

Company Benchmarking for Competitive Advantage

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Before undertaking a benchmarking study a company must be aware of the different types of benchmarking that exist. One of the major reasons for misunderstanding is the tendency to call a wide variety of different activities **Benchmarking**. The most simplistic form of benchmarking could be one person talking to another and deciding if they have similar areas of interest. At this level people undertake benchmarking every day.

Before listing the different types of benchmarking that exist it might be useful to present some definitions of benchmarking to set the scene. There are many definitions around but it is not so much the differences that matter but the similarities. This can be best illustrated using the following definitions: -

‘A continuous systematic process for evaluating the products, services and work of organisations that are recognised as representing best practices for the purpose of organisational improvement’ (Spendolini, 1992)

‘Benchmarking is an external focus on internal activities, functions, or operations in order to achieve continuous improvement’ (McNair and Leibfried, 1992)

‘A disciplined process that begins with a thorough search to identify best practice organisations, continues with the careful study of one’s own practices and performance, progresses through systematic site visits and interviews, and concludes with an analysis of results, development of recommendations and implementation’ (Garvin, 1993)

Drawing upon these quote it can be seen that the process needs to be continuous, one needs to understand your own company processes, look for best practice organisations to benchmark against, have a systematic method for collecting data, and be able to implement the findings once the gaps have been identified.

With this type of approach in mind it is now useful to look at the different kinds of benchmarking that exist. These have become established through the needs of companies to answer questions at various levels and regarding different topics. When working with the European Commission I helped to draw a model showing the different levels of benchmarking undertaken.

One way of looking at the different types of benchmarking is to look at the various levels of activity undertaken. At the first level we have **diagnostic benchmarking** which usually takes the form of early performance indicators. This type of benchmarking requires a very light touch and helps companies establish in a holistic way of establishing which processes are worthy of detailed consideration. Tools aimed at this level take a broad look across the company covering financial, hard management and often Business Excellence areas in order to establish priorities against an existing database of best practice. The Benchmark Index (BI), which I helped establish, particularly for Small to Medium Enterprise (SME) use, is know as a world leader in this area. The BI has also been used by larger companies on a cost centre basis as well as with the supply chain.

The next step, once areas of interest have been identified, is to move on to what I call real benchmarking and that is **process benchmarking**. This is the type of benchmarking undertaken by most large companies and focuses on improving specific processes within the company by comparing

them with exemplar companies usually on a global basis. It is this type of benchmarking which will be the subject for most of this article. It is a fairly time consuming and therefore expensive process but undertaken properly can yield significant results.

Moving on we come to **sector benchmarking** which is usually undertaken by Trade Associations and as the name suggests is very sector based. It usually consists of benchmarking the general performance of a sector in one country against that of another country. Therefore it could be that the automotive sector in the UK, USA and Germany undertake such a study to establish their relative positions.

Finally we come to **framework benchmarking** which is usually undertaken by global organisation either companies or governments. This type of benchmarking concentrates on infrastructure and looks to compare such areas as education, transport, health, financial provision etc.

As I said earlier, for the purposes of this article we should return to what I call **company benchmarking** and in particular **process benchmarking** which is the in-depth study and comparison of particular processes.

It is very important at the outset to obtain support for the benchmarking exercise from the highest level within the company. Quite often this type of initiative starts with the quality improvement team who present the proposal to their senior management. The senior managers must be convinced that any work undertaken is in support of the company strategy and will lead to improved performance. Without such support any exercise is doomed to failure particularly when it comes to the implementation stage.

However, senior management commitment will be measured not only on what they say but what they do. The term most commonly used to describe what is required of them is 'to walk the talk'. This means that they must be seen around the company fully supporting the benchmarking activity. In convincing senior management that a benchmarking exercise is what is required use can be made of the various case study materials that now exist showing the benefits of benchmarking. In a global market benchmarking is a necessity not an optional extra.

Having gained the support of the senior management team the quality improvement team must now engage the workforce in the activity, as this will be an important element both in establishing the parameters of the exercise and in implementing remedial actions. The team, which should normally be multidisciplinary, is usually drawn from across the company.

The method of benchmarking within companies can vary slightly but the overall principles are the same. Bob Camp created a model in 1989 when at Xerox which I think encapsulates the process.

It identified five stages of benchmarking, Planning, Analysis, Integration, Action and Maturity.

PLANNING 1. **Identify what is to be benchmarked.** To do this you need to understand your own processes and establish perform levels. 2. **Identify Comparative Companies.** This can be undertaken through organisations such as the **American Productivity and Quality Centre (www.apqc.org)** who offer a brokerage service or for the public sector organisations could contact the **Public Sector Benchmarking Service (www.benchmarking.gov.uk)** run by Customs and Excise in the UK. Also various award winning companies can be approached as well as those featuring on the business pages of newspapers such as the Business Post, Financial time etc and also through word of mouth and conferences. 3. **Determine Data Collection Method and Collect Data.** The method should be agreed with the other participants so that any comparisons made are of the same thing thus avoiding comparing apples with pears. It must be apples with apples.

ANALYSIS 4. **Determine Current Performance 'Gap'.** By comparing performance one can identify the gap that exists between a company and the best. 5. **Project Future Performance Levels.** This involves setting the targets, which the company will be aiming for in order to improve its performance in line with the exemplar companies.

INTEGRATION 6. **Communicate Benchmark Findings and Gain Acceptance.** The information needs to be communicated to senior managements and to the rest of the company. Support from above

and the multi-disciplinary team should help this process. 7. **Establish Functional Goals.** Benchmarking data needs to be converted into the functions that need to be improved and by how much.

ACTION 8. Develop Action Plans. Ways of improving performance need to be established. It is no use in having benchmarking data without using it to undertake remedial action. Some time ago I introduced the concept of *Applied Benchmarking*. This just means 'Do something with the data'. 9. **Implement Specific Action and Monitor Progress.** There now needs to be a period of time where actions need to be implemented and improvements measured. 10. **Recalibrate benchmarks.** The new benchmarks can be established and the whole process can start again.

MATURITY Leadership Position Attained. The company is seen as a world leader in what it does. **Best Practices Fully Integrated into Process.** The eventual aim is for the benchmarking process to be come part of the company's business planning happening naturally as part of the process.

Finally I would just like to mention some of the mistakes that companies can make when benchmarking. Many become stuck on the pricing aspects of the business totally ignoring the important management processes surrounding customers and people. Some take on too much at once trying to improve all aspects of the company at the same time. This will lead to failure and will have a demoralising effect on staff. Much better to deal with individual areas in a systematic way.

Companies sometimes chose their benchmarks without reference to the overall strategy and goals of the company. This will not aid acceptance by senior management and could affect other initiatives within the organisation. Trying to benchmark before a company fully understands its own processes is also a recipe for disaster. The company will waste its time and that of the other companies. Not using the benchmarking 'Code of Conduct' has resulted in companies being prosecuted. Codes exist in the US and Europe which have been presented to the State Government in the US and the European Commission in Europe. In fact I was given the task of presenting the latter.

If used correctly benchmarking is a very powerful tool. However, the benchmarks themselves are only the basis for action. Any exercise must be supported by an appropriate improvement processes within the company. Benchmarking is a continual process that, once started, has no end, as competitors themselves move forward. This has been called the 'escalator effect'. There are already companies on the escalator and as time goes by they move further away. The important thing is to step on to the escalator and start to benchmark.

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Note to editor: Terry Pilcher is due to leave the government service at the end of June 2004 where he has been the Head of Management Best Practice Services for the last nine year and set up his own company BCS Management Services (BCSMgt@aol.com) delivering solutions and opportunities to intermediaries offering management and other business services